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Performance Management and Employee Outcomes: What Performance Management Processes Drive Improvement of Employee Performance?

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Abstract

[Excerpt] Performance management (PM) systems can be a key driver of employee performance when designed strategically to go beyond operational or legal requirements. Organizations aspire for performance management processes to help employees develop, improve employee-manager communications, align individual and organizational goals, and help employees and teams reach their highest potential (Pulakos). These four items all drive employee performance and, ultimately, business performance.

To align PM to organizational aspirations, companies are changing their PM processes in new ways (see Figure 1). Sometimes they do so with limited data on results, like when dropping performance ratings. Changes, even in uncharted territory, *do* generally improve individual performance. Of companies that participated in Deloitte's 2017 Human Capital Survey, 90% that have redesigned performance management see direct improvements in engagement, 96% say the processes are simpler, and 83% say they see the quality of conversations between employees and managers increases (Schwartz et al.). This is because organizations are strategically implementing effective PM versus doing the bare minimum. To highlight improvements made to PM systems, we will point out changes and results in three key areas: employee evaluation, goal setting, and feedback.

Keywords

Human Resources, employee performance, performance management, organizational goals, employee engagement, performance, employee evaluation, measurement, reviews, remove ratings, eliminating ratings, ratings, engagement, crowdsource, feedback, compensation changes, compensation, rewards, incentives, goals

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Performance Management and Employee Outcomes

What performance management processes drive improvement of employee performance?

Performance management (PM) systems can be a key driver of employee performance when designed strategically to go beyond operational or legal requirements. Organizations aspire for performance management processes to help employees develop, improve employee-manager communications, align individual and organizational goals, and help employees and teams reach their highest potential (Pulakos). These four items all drive employee performance and, ultimately, business performance.

To align PM to organizational aspirations, companies are changing their PM processes in new ways (see Figure 1). Sometimes they do so with limited data on results, like when dropping performance ratings. Changes, even in uncharted territory, *do* generally improve individual performance. Of companies that participated in Deloitte's 2017 Human Capital Survey, 90% that have redesigned performance management see direct improvements in engagement, 96% say the processes are simpler, and 83% say they see the quality of conversations between employees and managers increases (Schwartz et al.). This is because organizations are strategically implementing effective PM versus doing the bare minimum. To highlight improvements made to PM systems, we will point out changes and results in three key areas: employee evaluation, goal setting, and feedback.

EMPLOYEE EVALUATION

Measuring performance is useful for gauging relative performance levels. However, care must be taken in how the measures are shaped and utilized influences employee performance.

Teams and Evaluation: Evaluation based on team results creates a more democratic and participative environment, drives down internal competition, and increases engagement and, ultimately, performance (Smith & Bititci). Incorporating team perspectives into evaluations could lead to boosted individual performance.

Frequency Matters: Having infrequent evaluations, like having only a yearly review, may not provide the guidance and motivations employees need to perform well (Collins and Bell). Increasing the frequency of performance measurement evaluations can relieve time pressures, allowing employees to focus on high-value tasks (Smith & Bititci).

Focus on Outliers: Traditional PM assumes a normal distribution. In reality, the distribution more closely resembles a power law distribution where the majority of employees are below average (O'Boyle) (see Figure 2). Evaluation processes should thus focus on identifying clear under- and over-performers versus finding minor differences in the mediocre majority (Ewenstein et al.).

Remove Ratings: Ratings are still used, but ratings and curves are supplemented with richer, more diverse data throughout the year (Schwartz et al.). There is a lack of data isolating rating removals in performance outcomes. GE saw "drastic improvements in employee engagement" when implementing a new PM system that included no ratings. Patagonia, after two years of a new PM system that included ratings removal saw improved individual performance and "strengthened engagement" (Schwartz et al.).

GOAL SETTING

Goal setting has shifted from a purely evaluative purpose to something that employees take ownership of and use to push performance.

Individual Ownership: When managers encourage employees to set their own goals, ownership and importance of achieving the goal increases (Locke & Latham). Companies therefore are shifting away from cascading goals

(Schwartz et al.). A “bottom-up” approach, where employees set goals while referencing organizational objectives, allows for goals to be more specific to each employee while connecting to broader projects (Sammer). Increasing transparency around goals, such as announcing a goal publicly, compels employees to act upon it to demonstrate integrity (Locke & Latham). It also allows individuals to gauge progress relative to others openly (re:Work).

Stretch Goals Drive Performance: Having moderately difficult goals, versus easy or very difficult, motivates employees to exert highest effort (Locke & Latham). However, recent trends show that ambitious goals can drive employees to exceed expectations.

- The Objectives and Key Results (OKRs) method, used by Google, is a goal-setting technique where employees have very ambitious goals that can be easily measurable and scored, pushing employees to accomplish more than thought possible (re:Work). Sears, for example, saw an average sales per hour increase of 8.5% when implementing OKRs (Sears).
- Facebook uses 50-50 goals, goals that have an equal chance of success or failure. They find that balancing the odds drives excellence without being so demotivational that employees give up (Goler et al.).

FEEDBACK

Effective feedback can be motivating for employees; however, it can also be demotivating if handled improperly. More importantly, interpretation of feedback affects the receiver’s behavioral change (Adler et al.).

Check-Ins Change Conversation: Annual feedback alone is no longer in line with today’s business environment or employee needs. Adobe’s new system requires employees to have “check-ins” with managers at least once every quarter, with an emphasis on professional growth and development (Miller). When Deloitte implemented frequent check-ins exploring real-time feedback and near-term tasks, employees processed how to deliver results based on their strengths and how the team could support them (Bank). Patagonia found that those who had regular check-ins and feedback outperformed peers on financial and talent measures (Schwatrz et al.).

Crowdsource Feedback: Organizations see better employee results when feedback is not solely the managers’, and is in real-time instead of vaguely recalled in annual reviews. GE uses a technology which enables real-time feedback from peers, managers, and the employees themselves to better understand how results were achieved (Ewenstein et al.). Facebook has peers write reviews and share reports directly with each other, increasing transparency and minimizing the manager’s opinion in swaying employee outcomes (Goler et al.).

TECHNOLOGY

To improve PM companies are using new technologies that pull better data and improve efficiencies around PM processes. Tools that automate PM activities free up managers’ time, shift PM from employee criticism to development, and improve data quality (Ewenstein et al.). New tools can enable social and transparent goal-setting, easy progress tracking, continuous feedback, instant information, supportive career development, easy data and analytics deployment, and easy integration into common office tools (Schwartz et al.).

- ***Atlassian:*** The organization uses an internal wiki dashboard called Kudos where peer-to-peer recognition can be given without managerial approval (with small gift card amounts approved by HR). Small-Improvements, a feedback software, integrates data from Kudos, Confluence (a social collaboration platform), and Jira (a project management tool) to facilitate staff reviews (jluijke).
- ***Patagonia:*** All of Patagonia’s PM changes - OKR goal-setting, eliminating reviews, requiring quarterly reviews, and related compensation changes - has been implemented through HighGround, a mobile app. (Schwartz et al.). Using one easy-to-access tool simplifies the process for end users and beneficiaries.

Ultimately, these tools can help organizations simplify and improve upon the PM changes made, benefits that will translate into better employee outcomes.

APPENDIX

Figure 1 (Schwartz et al.)

Figure 2. Performance management: Old rules vs. new rules

Old rules	New rules
Performance appraisals and goal-setting conducted once per year	Check-ins conducted quarterly or more frequently; regular goal-setting occurs in an open, collaborative process
Feedback collected by manager at end of year	Feedback collected continuously and easily reviewed at end of year (often through apps and mobile tools)
Goals kept confidential with focus on individual achievement	Goals made public and transparent with increased focus on team achievement
Employees evaluated by their manager	Managers also evaluated by their employees
Employees force-ranked on a quantitative scale	Employees rated on a qualitative scale; rankings considered, not forced
Compensation kept confidential and focused on equity; bands based on performance ratings	Compensation levels more transparent, more frequently discussed, and focused more on pay for performance than on equity
Managers focused on evaluating performance	Managers focused on coaching and developing people
One leader evaluates each individual in a qualitative, opinion-based process	Many contribute to an individual's performance evaluation; evaluation draws heavily on data
Process considered to be a burden and waste of time	Process is agile, faster, continuous, and lighter

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Figure 2 (O'Boyle)

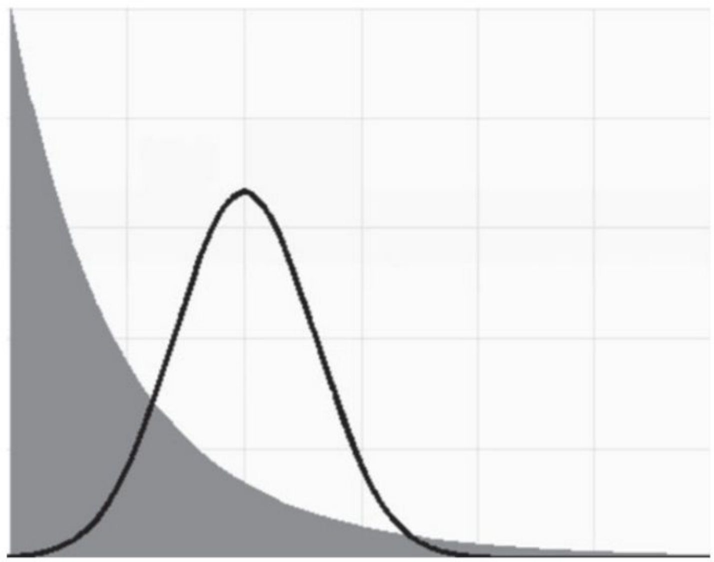

Figure 1: **A Normal Distribution (Black) Overlaying a Paretian Distribution (Grey).**

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